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TAGS: [PREL](#) [ETRD](#) [ECON](#) [PGOV](#) [AORC](#) [UY](#)
SUBJECT: URUGUAY'S FTA AT CROSSROADS WHILE VENEZUELA JOINS
MERCOSUR

REF: A. MONTEVIDEO 0567

[1](#)B. MONTEVIDEO 0555 AND PREVIOUS

Classified By: Charge D'Affaires Linda T. Gonzalez
for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary: President Vazquez is caught between wanting a Free Trade Agreement (FTA) with us and Brazil's open opposition to it. On June 23, Brazil's visiting Foreign Minister explicitly warned the Uruguayans that an FTA with us would be damaging to Mercosur and Uruguay. On June 26, GOU and USTR officials met in Washington to give the GOU's trade officials a clear understanding of the established requirements included in a "gold standard" FTA with the U.S. On July 4, Chavez hosted a big bash in Caracas to celebrate Venezuela's full entry into Mercosur. Seven Mercosur and Mercosur-associate Presidents attended. On July 20-21, Mercosur will host a major summit in Cordoba, Argentina to cement this process and to welcome Brazil's pro-tempore presidency. It is rumored that Fidel Castro may attend. It is likely that the issue of an FTA will surface at the Cordoba Summit. At any rate, Vazquez will soon have to decide whether to formally request an FTA with us because time is running out. If he petitions Mercosur, he may resort to a legal argument. The bloc's restrictions on individual member states' negotiating trade preferences could violate Uruguay's constitution. Vazquez is also bound to assert (ref A) that Mercosur has not been working well for the small countries in Mercosur. Most observers doubt that Uruguay would ever pull out from the trading bloc because the political costs are too high. Such a move would also be awkward for Mercosur, especially since Venezuela has just joined. Below are some recent developments regarding the state of play. End Summary.

Brazilian Formin Objects to FTA

[1](#)2. (SBU) On June 23-24, Brazil's Foreign Minister Celso Amorim visited Uruguay. Beginning with his press conference upon arrival and at practically every turn thereafter, he warned his hosts that an FTA with the U.S. would be damaging to Mercosur and Uruguay. Recognizing the "great unrest among

the small countries" including, "asymmetries", intra-bloc trade problems and the serious pulp mill dispute between Uruguay and Argentina, he promised a "New Deal" rectify them -- once Brazil assumes Mercosur's pro-tempore presidency. "This is not a regular visit," Amorim declared during a press conference. He said that, "Brazil believes that we win with an architecture of preserving and strengthening South American integration in a very tough, savage world of economic blocs. It is obvious that sometimes we may obtain advantages if we negotiate separately, but over the long term we will all lose."

Negative Reactions

¶3. (C) Amorim may have overplayed his hand here, since there's been considerable backlash to his statements by opposition and business leaders in Uruguay. Blanco Senator (and former Foreign Minister) Sergio Abreu bristled at Amorim's remarks and characterized his "New Deal" offer as a mere "espejito" (a little mirror) since no concrete offers were produced. Among a litany of complaints, Abreu cited Brazil's FTZ in Manaus, which exports more than fifty times as much (US \$20 billion) as does Uruguay. He also questioned why Amorim "should ask us to comply with one percent of Mercosur's requirements when 99 percent of them don't work. Technically, Mercosur's decision 32/00 doesn't only apply to negotiations for trade preferences outside the bloc. Other Mercosur obligations are in the text that have not been fulfilled." Several business leaders labeled Amorim's statements "paternalistic and devoid of content". and underscored the failings of the Common External Tariff (CET). (Note: Of the USD 75-85 billion in imports, only USD 15 billion pay the relevant tariffs. End Note.) Among others. Senator Carlos Baraibar called Amorim's statements an

"interference in Uruguay's domestic affairs." Mining Director Luis Ferrari told A/DCM that "insult to injury was added" when Amorim's economic team refused to discuss the specifics of the proposed "New Deal" and talked about football instead. Only Formin Gargano seemed pleased by Amorim's remarks, while President Vazquez thus far has been conspicuously silent.

Insiders say "Steady as She Goes"

¶4. (C) Charge also spoke to Industry Minister Jorge Lepra and Econ Minister Danilo Astori regarding Amorim's remarks. (Note: Astori -- the GOU's most visible proponent for an FTA -- has lately been having a rough time dealing with domestic opposition to his economic and fiscal policies -- particularly from the Communist-dominated labor unions. End Note.) Both ministers indicated the President's continued commitment to signing an FTA. Although they did not appear privy to how Vazquez was actually going to achieve it, they were confident in the President's and his capable Chief of Staff Gonzalo Fernandez's abilities to manage the international and domestic political challenges to an FTA. Other GOU trade officials we spoke with also expressed optimism on an FTA and opined that Venezuela's adhesion to Mercosur was still fraught with legal questions and considerable resentment.

Venezuela and Uruguay/Paraguay

¶5. (C) The signing of the protocol of adhesion for Venezuela was supposed to have taken place during the July 20-21 Cordoba Summit, but was inexplicably moved up to July 4 in Caracas. Embassy learned that in order to convince Uruguay and Paraguay to accept Venezuela's entry into Mercosur, Venezuela had promised both countries immediate duty-free access on a long list of products. On June 30, Isabel Masoller (protect) one of the vice-directors of the Trade Advisory Directorate at the Ministry of Economy said she was "furious" when she saw the final pared-down list, where key products (including meat and dairy) had been removed. Masoller described the negotiations as "indigno" (wretched) and recommended that the GOU not sign the list. In another area, we also learned from Uruguay's Ambassador to Venezuela

that Vazquez and Chavez discussed Venezuela's Conviasa airline's buy-in of Uruguay's embattled Pluna airline. Since Brazil's Varig (a major stake holder in Pluna) has been in bankruptcy, the Pluna issue is of immediate, pressing concern to the GOU. Pluna needs an estimated USD 20 million to stay afloat. On the cocktail circuit a number of contacts stated that Paraguay is making noises about Mercosur. However, some newspapers here characterized Venezuela's entry into Mercosur as a good thing based on open market access to more than three-quarters of South America's GDP.

Meeting with Brazilian Ambassador

16. (C) On June 26, the Charge met with Brazil's Ambassador Eduardo Dos Santos at his request. Dos Santos was obviously very curious about what was going on between GOU and USTR officials in Washington on that day. The Charge offered him something like the anodyne, "Today we met under the mandate of Presidents Bush and Vazquez to continue to explore ways to deepen our trading relationship under the auspices of the U.S.-Uruguay Joint Commission on Trade and Investment (JCTI). The meetings were productive and informative. We look forward to additional discussions in the future." But Dos Santos came on strong, and said, "Celso Amorim wanted to be very clear. An FTA with the U.S. is incompatible with Mercosur, for structural and architectural reasons. We'll support Uruguay in whatever it decides, but we wanted to be very clear." Charge asked the Ambassador about other of Amorim's comments, including that an FTA with the U.S. would "injure" Uruguay, but he said "no" and that a lot of things had been reported out of context.

17. (C) Ambassador Dos Santos continued that Celso Amorim had met with Vazquez and most of his cabinet and he claimed that there was "unanimity and that nobody was in favor of an FTA." He said that Vazquez said that President Bush offered him one, but that he replied "no", that Uruguay just wanted to deepen trade. The Ambassador persisted about what was going on in Washington, to which the Charge replied, that no one in Washington has any intention of breaking up Mercosur, and that the U.S.-Brazil relationship is very important. Dos Santos said the proper channel to discuss an FTA was the 4 1 mechanism, to which the charge responded, "You mean the 5 1 mechanism." Dos Santos admitted that this would soon be the case.

Comment:

18. (C) Over time, Venezuela's membership in Mercosur is likely to change the nature of this customs union into something much more political. We understand that Venezuela now has the power to veto an FTA. While Uruguay urgently needs an FTA with us, we doubt it would ever leave Mercosur in order to achieve this objective. Vazquez is not as combative as Evo Morales in standing up to Brazil and Argentina. It would also be technically difficult for Uruguay to downgrade its Mercosur membership to associate status. However, Uruguay may choose to highlight Brazil's 2002 trade deal with Mexico, which was negotiated outside the Mercosur bloc and resulted in lower tariffs on some goods. It could also argue that Mercosur rules restricting "foreign negotiations" is illegal under Uruguay's (and Brazil's) constitution. Most likely, Vazquez will justly complain that Mercosur has been a raw deal for Uruguay and has not been acting as a real customs union; therefore it needs an FTA to compensate for its losses. How Brazil, Venezuela and Argentina will react to Uruguay's arguments is another matter. Nevertheless, Vazquez insiders continue to assure us that he has already thought all of this out. End Comment. Gonzalez